No. 06-937

In The
Supreme Court of the United States

QUANTA COMPUTER, INC., *et a..*,

Petitioners,

v.

LG ELECTRONICS, INC.,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF OF NCR CORPORATION AS AMICUS CURIAE IN SUPPORT OF PETITIONERS

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TABLE OF CONTENTS

Page

STATEMENT OF INTEREST OF AMICUS CURIAE 1

SUMMARY OF THE ARGUMENT 2

ARGUMENT 5

I. METHOD AND APPARATUS CLAIMS SHOULD BE TREATED THE SAME FOR EXHAUSTION PURPOSES BECAUSE PATENTEES OFTEN USE THEM INTERCHANGEABLY TO DESCRIBE A SINGLE INVENTION. 5

A. The Patent Statutes Permit A Patent Applicant To Claim An Invention As Either An Apparatus, Or A Method, Or Both 5

B. Standard Patent Practice Is To Define The Invention Using Virtually Interchangeable Method And Apparatus Claims. 7

C. Method And Apparatus Claims May Not Be Patentably Distinct And Should Not Be Treated Differently For Exhaustion Purposes 11

TABLE OF CONTENTS – Continued

Page

D. The Exhaustion Doctrine Is Necessary To Protect Purchasers From Both Method And Apparatus Claims Designed To Seek Royalties From Every Link In The Chain Of Commerce. 13

II. THE FEDERAL CIRCUIT'S BRIGHT LINE RULE PRECLUDING EXHAUSTION OF METHOD CLAIMS IS INCONSISTENT WITH THIS COURT'S PRECEDENT..... 16

A. The Test For Exhaustion Is Not The Form Of The Asserted Patent Claims, But Instead Whether The Article Sold Has A Substantial Use Other Than To Practice The Claimed Invention..... 16

B. The Federal Circuit's Decision Creates a Rigid Rule Precluding Exhaustion of Method Claims That Lacks Sound Reasoning And Should Be Overruled. 21

i The Federal Circuit Has Used The Wrong Test For Exhaustion. 21

TABLE OF CONTENTS – Continued

Page

ii. This Court Should Hold That There Is No Rigid Rule Precluding The Exhaustion of Method Claims And, In Appropriate Circumstances, Method Claims May Be Exhausted By The Sale Of A Device. 26

CONCLUSION 28

TABLE OF AUTHORITIES

Page(s)

Cases

Adams v. Burke,
84 U.S. (17 Wall.) 453 (1873) 14, 20

Bandag, Inc. v. Al Bolser's Tire Stores, Inc.,
750 F.2d 903 (Fed. Cir. 1984) ..... passim

Dawson Chemical Co. v. Rohm & Hass Co.,
448 U.S. 176 (1980) 20

Ethyl Gasoline Corp. v. United States,
309 U.S. 436 (1940) ..... passim

Glass Equipment Development, Inc. v. Besten, Inc.,
174 F.3d 1337 (Fed. Cir. 1999) ..... passim

Hewlett-Packard Co. v. Bausch & Lomb Inc.,
909 F.2d 1464 (Fed. Cir. 1990) 28

Hewlett-Packard Co. v. Repeat-O-Type Stencil Mfg. Corp. Inc.,
123 F.3d 1445 (Fed. Cir. 1997), *cert. denied*, 523 U.S. 1022 (1998) 27

In re Abele,
684 F.2d, 902 (C.C.P.A. 1982) 15

In re Johnson,
589 F.2d 1070 (C.C.P.A. 1978) 9

TABLE OF AUTHORITIES – Continued

Page(s)

In re Johnston,
502 F.2d 765, 183 USPQ 172
(C.C.P.A. 1974) 23

In re Nuijten,
500 F.3d 1346 (Fed. Cir. 2007) 7

In re Tarczy-Hornoch, 397 F.2d 856
(C.C.P.A. 1968) 12

Indep. Ink, Inc. v. Ill. Tool Works, Inc.,
396 F.3d 1342 (Fed. Cir. 2005),
vacated 547 U.S. 28 (2006) 25

Jazz Photo Corp. v. Int'l Trade Comm'n,
264 F.3d 1094 (Fed. Cir. 2001) 27

KSR Int'l. Co. v. Teleflex Inc., 127 S.Ct.
1727, 167 L.Ed.2d 705 (2007) 28

Leitch Manufacturing v. Barber Co.,
302 U.S. 458 (1938) 20

LG Elecs., Inc. v. Bizcom Elecs. Inc.,
453 F.3d 1364 (Fed. Cir. 2006) ..... passim

Lucent Tech. v. Gateway, Inc.,
470 F. Supp. 2d 1163 (S.D. Cal. 2007) 26

Met-Coil Systems Corp. v. Korners Unltd., Inc.,
803 F.2d 684 (Fed. Cir. 1986) 27

TABLE OF AUTHORITIES – Continued

Page(s)

Newell Cos., Inc. v. Kenney Mfg. Co.,
864 F.2d 757 (Fed. Cir. 1988) *cert. denied*, 493 U.S. 814 (1989) 27

State Street Bank & Trust Co. v. Signature Fin. Group,
149 F.3d 1368 (Fed. Cir. 1998) 6

United States ex rel. Steinmetz v. Allen,
192 U.S. 543 (1904) 7

United States v. Univis Lens Co.,
316 U.S. 241 (1942) ..... passim

United States v. Univis Lens Co.,
41 F. Supp. 258 (S.D.N.Y. 1941) 18, 19

Statutes

35 U.S.C. § 101 ..... 5, 6, 15

35 U.S.C. § 112 ..... 5, 6

35 U.S.C. § 121 11

35 U.S.C. § 271 6

35 U.S.C. § 284 7

Other Authorities

37 C.F.R. § 1.141 11

37 C.F.R. § 1.71 5

TABLE OF AUTHORITIES – Continued

Page(s)

37 C.F.R. § 1.75 5

United States Patent and Trademark Office ("PTO"), United States Department of Commerce, Manual of Patent Examining Procedure ("MPEP") (8th ed. Rev. 5, 2006) 5, 6, 11, 12

United States Patent and Trademark Office, United States Department of Commerce, Examination Guidelines, 61 Fed.Reg. 7478 (1996) 8, 9

Treatises

HARMON, PATENTS AND THE FEDERAL CIRCUIT, (8th ed. 2007) 8

ROBERT C. FABER, LANDIS ON MECHANICS OF PATENT CLAIM DRAFTING (5th ed. 2007) 8, 13, 14, 28

STATEMENT OF INTEREST OF AMICUS CURIAE[1]

Amicus NCR Corporation was founded in 1884 and since that time has evolved into a complete technology solutions supplier that provides software, hardware, and professional services that enable businesses to automate transactions and build customer relationships in the retail, financial, telecommunications, transportation, insurance, healthcare, and manufacturing industries as well as for governmental entities. NCR's products often incorporate numerous advanced technologies to create integrated solutions. As a result, NCR has operated for over 120 years as a patent holder, a licensor, and a licensee of patented technology.

In many instances, patents in the fields of technology relevant to NCR include both apparatus claims and method claims that describe the intended, and oftentimes only, practical use for components and devices commonly used in the industry. For such patents, the Federal Circuit's broad statement that method claims are not subject to exhaustion has the potential to damage NCR and other similarly situated businesses whose product sales may be jeopardized by patent holders who first authorize

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[1] The parties have consented to the submission of briefs of *amicus curiae* in letters filed separately with the Clerk of the Court on October 31 and November 1 by counsel for Petitioners and Respondent, respectively. Counsel of record for all parties received notice at least 10 days prior to the due date of the *amicus curiae's* intention to file this brief. Pursuant to Rule 37.6, counsel for *amicus curiae* certify that no counsel for a party authored this brief in whole or in part, and no person or entity other than *amicus curiae*, or their counsel, has made a monetary contribution to this brief's preparation or submission.

those sales and then seek an unjustifiable second royalty against customers that use the purchased products. NCR therefore has a strong interest in requesting that this Court reverse the Federal Circuit and clarify that the sale of a device can, and in appropriate circumstances will, exhaust a patentee's rights in its method claims where the device has no substantial use other than to practice the claimed method.

SUMMARY OF THE ARGUMENT

Under this Court's precedent, the sale of a device can exhaust associated method claims, at least where the device has no substantial use other than to practice the claimed method. *United States v. Univis Lens Co.*, 316 U.S. 241 (1942); *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436 (1940). Despite this precedent, the Federal Circuit has stated a new, rigid rule: "the sale of a device does not exhaust a patentee's rights in its method claims." *LG Elecs., Inc. v. Bizcom Elecs. Inc.*, 453 F.3d 1364, 1370 (Fed. Cir. 2006). The Federal Circuit's rule ignores the practical realities of the claim drafting process – method and apparatus claims are often used interchangeably to describe the same invention.

As the *Univis Lens* decision reflects, an inventor may create a novel component that has no inherent use other than to be combined with other elements to create a finished system. During the patent application process the applicant may therefore add claims that merely combine the new component with generic elements to create a useable "system." An example would be combining a novel processor with a memory, system bus, and other standard components and drafting a claim to cover an entire personal

computer system. Similarly, although an applicant may use apparatus claims to describe a novel product, the applicant may also add method claims that merely recite the product's plainly intended use. Moreover, in many arts, apparatus and method claims are interchangeable such that patentees can, and often do, use both types of claims to cover the same inventive concept. While such claim drafting strategies are not necessarily improper, exhaustion of the patent monopoly through the authorized sale of the invention's core component should not turn on a mere drafting choice by the patent applicant to claim the invention as an apparatus, or a process, or both.

This Court's precedents reflect a basic principle underlying the exhaustion doctrine – once sold, the value of a patented article is in its use:

> An incident to the purchase of any article, whether patented or unpatented, is the right to use and sell it, and upon familiar principles the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold.

Univis Lens, 316 U.S. at 249. Thus, under the exhaustion doctrine, the authorized first sale of an article eliminates any patent monopoly the seller may have over the article sold and its only reasonable use. The Federal Circuit's decision below acknowledges this point. *LG Elecs.*, 453 F.3d at 1370 (Fed. Cir. 2006) ("An unconditional sale of a patented device exhausts the patentee's right to control the purchaser's *use* of the device thereafter.") (quotations and alterations removed and emphasis added). But

the Federal Circuit nevertheless erodes this principle by eschewing the *Univis Lens* analysis in favor of a bright line rule that the allegedly exhausted claims must read directly on the article sold and hence the sale of a device can never exhaust method claims that define the device's only reasonable use. *LG Elecs.*, 453 F.3d at 1370 (citing *Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903, 924 (Fed. Cir. 1984) (finding first sale doctrine inapplicable where the asserted claims did not "read on" the article sold); *Glass Equipment Development, Inc. v. Besten, Inc.*, 174 F.3d 1337, 1342 n.1 (Fed. Cir. 1999) (same)).

Patent exhaustion is a rule of substance not form – an authorized sale of even one non-staple element of a patented apparatus may exhaust the patent if the element has no substantial use other than to practice the patent claims. *Univis Lens*, 316 U.S. at 249. Similarly, the authorized sale of a device should, in appropriate circumstances, exhaust method claims as well as apparatus claims, at least where the device has no substantial use other than to practice the claimed method. The Federal Circuit's contrary ruling creates a formalistic distinction between claim types where there is no practical difference in the invention clamed – a result that, if left unchecked, would effectively eliminate the exhaustion doctrine, reducing it to a mere detour in the claim drafting process.

ARGUMENT

I. METHOD AND APPARATUS CLAIMS SHOULD BE TREATED THE SAME FOR EXHAUSTION PURPOSES BECAUSE PATENTEES OFTEN USE THEM INTERCHANGEABLY TO DESCRIBE A SINGLE INVENTION.

A. The Patent Statutes Permit A Patent Applicant To Claim An Invention As Either An Apparatus, Or A Method, Or Both.

Each issued patent includes a specification that must conclude with "one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention." 35 U.S.C. § 112; *see also* 37 C.F.R. §§ 1.71(a), (b), 1.75(a). The patent statutes describe four classes of inventions that an applicant may claim: processes, machines, manufactures, and compositions of matter. 35 U.S.C. § 101 ("Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.").

These four classes correspond to the two primary claim types. Claims covering processes are typically called "method" or "process" claims, while claims covering machines, manufactures, and compositions are typically called "apparatus" or "product" claims. United States Patent and Trademark Office ("PTO"), United States Department of Commerce, Manual of Patent Examining Procedure ("MPEP") § 2106 Part

II.C (8th ed. Rev. 5, 2006). "For processes, the claim limitations will define steps or acts to be performed. For products, the claim limitations will define discrete physical structures or materials." MPEP § 2106 Part II.C.

In addition to the claims, the specification must contain "a written description of the invention, and of the manner and process of making *and using it*." 35 U.S.C. § 112 ¶ 1 (emphasis added). This is known as the "utility requirement" and it arises from the basic law of statutory subject matter, which states that a patent may issue only for "new *and useful*" inventions and as a result an applicant is not entitled to a patent unless and until it shows a useful and practical application for the invention. 35 U.S.C. § 101 (emphasis added). For this reason, even patents claiming a novel apparatus are required to describe a practical use for the apparatus – a use that most any competent draftsperson may also claim as a method.

This Court's holding that exhaustion may occur when the article sold has no substantial non-infringing use is consistent with the patent statutes, which recognize that the value of an invention is in its use. Inventions are not patentable unless they produce a "useful, concrete and tangible result." *State Street Bank & Trust Co. v. Signature Fin. Group*, 149 F.3d 1368, 1373-74 (Fed. Cir. 1998). Moreover, a purchaser doesn't infringe a patent by merely possessing a patented article without using it. Instead, the patent statutes state that "whoever without authority makes, *uses*, offers to sell, or sells any patented invention ... infringes the patent." 35 U.S.C. § 271(a) (emphasis added). Indeed, the touchstone for a patentee's damages for infringement

is "a reasonable royalty for the *use* made of the invention by the infringer." 35 U.S.C. § 284 (emphasis added).

Again, in some instances a claimed method may describe nothing more than the only practical and intended use of a novel apparatus. In such instances, the method claim merely makes explicit in the patent's specification that which the law already provides -- a right to control the invention's use. Consistent with this Court's precedent and patent policy, that right may be exhausted by the first sale of a device where the device's only reasonable use is to practice the invention. A patentee should not be able to avoid that result through the strategic drafting choices made during the patent application process.

B. Standard Patent Practice Is To Define The Invention Using Virtually Interchangeable Method And Apparatus Claims.

In many arts, apparatus and method claims are virtually interchangeable and a patentee may use either claim type to describe the same invention. Over a century ago, this Court recognized the principle that an apparatus and the method for its use "may approach each other so nearly that it will be difficult to distinguish the process from the function of the apparatus" and the Court therefore invalidated a prior PTO rule prohibiting method and apparatus claims from appearing in the same patent. *United States ex rel. Steinmetz v. Allen*, 192 U.S. 543, 559 (1904); *see also In re Nuijten*, 500 F.3d 1346, 1362 (Fed. Cir. 2007) (Lin, J. concurring-in-part and dissenting-in-part) (noting that "claims to essentially

the same invention can frequently be drafted, with at most subtle differences in scope, to either processes or manufactures.").

As a result, standard patent practice is that a "method should, where possible, also be claimed in a product claim." ROBERT C. FABER, LANDIS ON MECHANICS OF PATENT CLAIM DRAFTING § 4:10, 4-34. (5th ed. 2007). *See also* FABER, § 7:2, 7-5 ("For the fullest protection wherever an invention is capable of being claimed in more than one of the different ways, it is recommended that be done."). As a leading treatise on patent claim drafting explains, "[a]n invention to a product ... may be claimed in any of several ways, depending on the individual product." *Id.* § 7:2, 7-4. For example, it may be claimed as "a product" or "a process for using the product." *Id.* Similarly, a process may be claimed as "a process" or "a machine which performs or uses the process." *Id.* § 7:2, 7-5. *See also* HARMON, PATENTS AND THE FEDERAL CIRCUIT, § 6.7(d) (8th ed. 2007) ("The claims defining some inventions can by competent draftsmanship be directed to either a method or an apparatus.").

The PTO's Final Computer Related Examination Guidelines provide an example of this commonplace practice. The Guidelines explain that an applicant may claim a process for (a) analyzing a chemical compound to determine its structure and then (b) displaying the compound's structure. PTO, United States Department of Commerce, Examination Guidelines, 61 Fed.Reg. 7478 , 7483 (1996). But the applicant may also claim the same invention using an apparatus claim that defines a computer system with means for (a) analyzing a chemical compound to

determine is structure and then (b) displaying its structure." *Id.* Depending on the application's written description, "the patentability of this apparatus claim will stand or fall with that of the process claim." *Id.*

Reviewing claim elements side by side demonstrates the simplicity with which a drafter may create a method claim that does nothing more than state the only practical use for a claimed apparatus:

1. A computer ***system*** for determining and displaying the structure of a chemical compound comprising:	2. A ***process*** for determining and displaying the structure of a chemical compound comprising:
(a) processing means for solving a wavefunction that determines the compound's structure; and	(a) solving a wavefunction to determine the compound's structure; and
(b) display means for creating and displaying an image representing the compound's structure.	(b) displaying the structure of the compound determined in step (a).

As these examples reflect, "the form of the claim is often an exercise in drafting." *In re Johnson*, 589 F.2d 1070, 1077 (C.C.P.A. 1978). Where, as in these examples, a patent uses a method claim to cover an article's only practical use, "upon familiar principles the authorized sale of [the] article which is capable of use only in practicing the patent is a relinquishment

of the patent monopoly" and hence should exhaust the otherwise applicable method claim. *Univis Lens*, 316 U.S. at 249.

This is hardly a hypothetical exercise. The Respondent, LGE, has patents at issue that similarly contain method claims that may describe the only practical use of a claimed apparatus. For example, Claim 1 of U.S. Patent No. 5,379,379 describes an apparatus – a "memory control unit" for controlling a main memory in a processing system, including means for reading and writing main memory over a system bus in a specified manner. Claim 7 of the same patent describes the associated method – steps for using the memory control unit to control main memory in a processing system, including steps for reading and writing main memory over the system bus. Similarly, Claim 1 of LGE's U.S. Patent No. 5,077,733 describes an "*[a]pparatus for* determining priority of access to a bus among a set of devices coupled to the bus," while Claim 15 provides the analogous "*method for* determining priority of access to a bus among a set of devices coupled to the bus." Another striking example of a method claim that merely recites the required function of a claimed apparatus occurs in Claims 1 and 12 of U.S. Patent No. 4,918,645, an LGE patent originally at issue in this case. These claims are substantially identical except that Clam 1 describes a "memory control apparatus" whereas Claim 12 describes a "method for controlling a memory." Claims such as these, which cover the same invention should be treated the same for exhaustion purposes.

C. Method And Apparatus Claims May Not Be Patentably Distinct And Should Not Be Treated Differently For Exhaustion Purposes.

As explained in detail below, a single patent may contain both method and apparatus claims provided that the claims relate to a single, distinct invention. Treating method and apparatus claims equally for exhaustion purposes is thus particularly appropriate where both claims appear in the same patent and hence presumptively relate to the same invention.

Where a patent application contains multiple claims that describe separate inventions, the PTO may issue a restriction requirement. 35 U.S.C. § 121 ("If two or more independent and distinct inventions are claimed in one application, the Director may require the application to be restricted to one of the inventions."); *see also* 37 C.F.R. § 1.141 ("Two or more independent and distinct inventions may not be claimed in one national application ..."). A restriction requires the applicant to pursue each distinct invention in a separate patent application.

To determine whether claims define distinct inventions, the analysis is one of substance, not form – "it is the claimed *subject matter* that is considered and such claimed subject matter must be compared in order to determine the question of distinctness or independence." MPEP § 806.01 (emphasis added). "Related inventions are distinct if the inventions as claimed are not connected in at least one of design, operation, or effect ... and wherein at least one invention is patentable (novel and nonobvious) over the other." MPEP § 802.01 (emphasis removed). In contrast, claims are not directed to distinct

inventions, and a restriction is never required, where the claims define the same essential characteristics of an invention's single disclosed embodiment. MPEP § 806.03.

As a result, a claimed apparatus with no substantial use other than to practice a claimed method is not a distinct invention and the two claims may appear within the same patent. *Cf. In re Tarczy-Hornoch*, 397 F.2d 856, 857 (C.C.P.A. 1968) (overruling prior decisions that patent applicants could not claim both a machine and its inherent function). For example, according to the PTO's procedures, an apparatus and the process of using the apparatus might be distinct if either "(A) the process of using as claimed can be practiced with another materially different product; or (B) the product as claimed can be used in a materially different process." MPEP § 806.05(h). Similarly, a process and an apparatus for practicing the process might be distinct "if either or both of the following can be shown: (A) that the process *as claimed* can be practiced by another materially different apparatus or by hand; or (B) that the apparatus *as claimed* can be used to practice another materially different process." MPEP § 806.05(e) (emphasis in original).

Thus, where both method and apparatus claims appear in the same patent, they ordinarily relate to a single invention and are not patentably distinct. As such, there is no basis to treat the claims differently for purposes of the exhaustion doctrine, under which "[t]he patentee may surrender his monopoly in whole by the sale of his patent or in part by the sale of an article embodying *the invention*." *Univis Lens*, 316 U.S. at 250 (emphasis added). Both types of claims

may be exhausted where a device lacks any substantial use other than to practice the claimed invention.

D. The Exhaustion Doctrine Is Necessary To Protect Purchasers From Both Method And Apparatus Claims Designed To Seek Royalties From Every Link In The Chain Of Commerce.

Excluding method claims from exhaustion will allow patent holders to improperly obtain multiple bites from a single apple. Just as a novel component is often claimed in combination with generic elements to form a claimed system, any patent on a novel apparatus can (and in most cases will) also claim a method of using the apparatus. Indeed, it is standard and recommended practice in the patent field to draft claims that enable the patent holder to pursue any one of the multiple parties along the chain of commerce depending on where the patent holder may achieve the greatest royalty – either a manufacturer that makes and sells the components at the heart of the invention, a vendor that integrates the component into a larger system using generic add-ons, or a customer that uses the invention for its intended purpose. *See* FABER, § 7:2, 7-3 ("Each of the classes of invention should be the subject of a separate claim, to the extent that the invention encompasses several classes of claims. An application may have any or all of each of the different classes of claims.") (footnote omitted). As a leading treatise on patent claim drafting explains:

> Damages for patent infringement are awarded based on the claimed invention.

> The larger the claimed invention, that is, the more elements it contains, the greater may be the base upon which damages are calculated. Hence, one claims an entire machine or installation or article or process, not just a component part. ...
>
> Claim writers pursue claims to large combinations, and particularly narrower claims to large combinations, because royalties or damages might be based on the value of the large combination including the invention instead of "the Invention."

FABER, § 8:4, 8-4 – 8-6 (footnotes omitted).

Although competent claim drafting will thus permit patentees to pursue infringement claims against *anyone* in the chain of commerce, the exhaustion doctrine prevents them from pursing the same claims against *everyone* in the chain based on their use of the same product for which the patentee has already received a reward. *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 456 (1873) (holding that "in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use."). Thus, whether the patentee ultimately asserts a combination claim against Buyer A, who purchases a novel component and combines it with generic elements to create a system for sale, or instead asserts a method claim against Buyer B, who purchases a product and uses it

for its intended purpose, the buyer's dilemma is the same: the product purchased may have no substantial use other than to infringe the asserted claims. For exhaustion purposes, there is no inherent difference between the two classes of claims and no rational basis to protect Buyer A from the patent monopoly, but not Buyer B.

This Court's precedent sensibly reflects that the exhaustion doctrine protects both buyers equally. Just as a component may have no substantial use other than to be combined with additional elements to create a patented apparatus, an apparatus may have no substantial use other than to practice a patented method. The exhaustion doctrine protects against an unwarranted extension of the patent monopoly and, just as when considering an applicant's entitlement to the patent monopoly in the first instance, "sematogenic considerations preclude a determination based solely on the words appearing in the claims. In the final analysis ... the claimed invention, as a whole, must be evaluated for what it is." *In re Abele*, 684 F.2d, 902, 907 (C.C.P.A. 1982).

Similarly, the restriction requirement for patentably distinct inventions arises from the patent statutes, which limit an applicant to "a" patent, *i.e.*, a single patent, covering the invention. 35 U.S.C. § 101. Where method and apparatus claims are not distinct, and the apparatus cannot reasonably be used without practicing the method, the Federal Circuit's rule that sale of the apparatus will not exhaust the method claims improperly awards the inventor the benefit of a second, distinct patent on the same invention and thus provides the inventor an opportunity for a second royalty on a single product.

II. THE FEDERAL CIRCUIT'S BRIGHT LINE RULE PRECLUDING EXHAUSTION OF METHOD CLAIMS IS INCONSISTENT WITH THIS COURT'S PRECEDENT.

A. The Test For Exhaustion Is Not The Form Of The Asserted Patent Claims, But Instead Whether The Article Sold Has A Substantial Use Other Than To Practice The Claimed Invention.

This Court's decisions applying the exhaustion doctrine reflect that an authorized first-sale may exhaust any type of patent claim. The test is one of substance – whether the article has a substantial non-infringing use – not one of form based on the type of claim that the patentee elected to employ during the application process.

At least two of this Court's decisions, *Ethyl Gasoline* and *Univis Lens*, reflect that the sale of an article may exhaust both apparatus claims and method claims that cover the article's use. In *Ethyl Gasoline*, the patentee held several patents with product claims that covered a lead additive for use in a motor fuel and an improved motor fuel created using the additive. The patentee also held a pure method patent on a method of using the improved fuel by burning it in a combustion engine. *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 446 (1940). The patentee manufactured and sold the additive to oil refiners who produced the improved motor fuel and sold it to distributors (called "jobbers") who in turn sold the fuel to retailers and consumers. *Id.* at 446-47. Through various license arrangements, the patentee imposed numerous downstream use and

resale restrictions on the refiners, distributors, and retailers. *Id.* at 447-50. The Government argued that the downstream restrictions violated the Sherman Act and sought to enjoin the patentee from enforcing downstream use and resale restrictions on those who purchased leaded fuel from the authorized refineries.

The patentee sought to justify its downstream restrictions on the ground that the products remained within the patent monopoly by virtue of its patents on the additive, the improved fuel, and the methods of using the improved fuel. *Id.* at 451, 456. If the patentee's theory were correct, the restrictions on the distributors and retailers were justified because these entities otherwise faced potential contributory infringement liability under the method claims and direct liability under the product claims. But this Court rejected that defense and found that the patents, including the patents with only method claims, were exhausted by the patentee's sale of the additive to the refiners and by the oil refiners' authorized sale of the improved fuel to the distributors. *Id.* at 457. As a result, any downstream restrictions on the fuel were outside the patent monopoly.

The patents were thus exhausted although the method claims did not cover the fuel itself and did not cover the fuel as it passed from the refiner to the distributor, or the distributor to the retailer, or the distributor to the end customer but instead covered the end customer's use of the fuel in an automobile. Inherent in this Court's decision was a finding that the leaded fuel had no substantial use but to perform the claimed methods such that the first sale of the

leaded fuel exhausted the patentee's claims to the fuel's only reasonable use.

The facts in *Univis Lens* were strikingly similar and this Court accordingly reached the same result. In *Univis Lens*, the articles sold were lens blanks, which are ground and polished to create finished eyeglass lenses. In addition to its patents covering lens blanks, Univis held patents that claimed both finished lenses and methods for using the blanks to create the lenses. *United States v. Univis Lens Co.*, 41 F. Supp. 258, 262-63 (S.D.N.Y. 1941). Wholesalers and finishing retailers purchased lens blanks from Univis and ground the blanks into finished lenses. In turn, finishing retailers, and prescription retailers who purchased lenses from the wholesalers, mounted the finished lenses in eyeglasses that they sold to customers. The wholesalers, finishing retailers, and prescription retailers each had licenses with Univis that required them to charge minimum resale prices. *Univis Lens*, 316 U.S. at 244-45. The Government argued that the price-fixing violated the Sherman Act.

Univis countered that it had the right to control the price at which its patented goods were first sold, and the first sale of patented goods did not occur until the lenses were finished. This Court rejected Univis's theory that its patent rights permitted the downstream resale restrictions. The Court found that the first sale of the lens blanks exhausted the Univis patents because each lens blank sold had no substantial use other than to be incorporated into a finished lens in accordance with Univis's patent claims. *Id.* at 249. The Court explained its holding in terms that are equally applicable to both

apparatus and method claims, particularly given that the two claim types are interchangeable in many arts:

> The patentee may surrender his monopoly in whole by the sale of his patent or in part by the sale of an article embodying the invention. His monopoly remains so long as he retains the ownership of the patented article. But sale of it exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article.
>
> ...
>
> [W]here one has sold an uncompleted article which, because it embodies essential features of his patented invention, is within the protection of his patent, and has destined the article to be finished by the purchaser in conformity to the patent, he has sold his invention so far as it is or may be embodied in that particular article.

Id. at 250-51. Notably, among Univis' patents that it argued justified its downstream restrictions on the lens wholesalers, finishers, and retailers was a pure method patent that covered a process for creating finished lenses from lens blanks. *See United States v. Univis Lens Co.*, 41 F. Supp. 258, 262-63 (S.D.N.Y. 1941) (explaining that asserted U.S. Patent No.

1,879,769 covers "only a method for producing a lens to eliminate prismatic imbalance").

Additional decisions from this Court, although not couched in the language of "exhaustion" or "first sale," accord with the principles of *Univis Lens* and *Ethyl Gasoline* that the sale of a product may exhaust a patent holder's right to assert its method claims against the purchaser. For example, in *Dawson Chemical Co. v. Rohm & Hass Co.*, 448 U.S. 176 (1980), where the patentee held a patent covering a method of applying a chemical called propanil as a herbicide, this Court accepted the parties' concession that the propanil had no substantial use other than to practice the claimed method, and that the patentee "relinquishes its monopoly [in the patented method] by selling the propanil" and as a result its buyers could use the propanil without fear of being sued for infringement. *Id.* at 182, 186 (citing *Univis Lens* and *Adams v. Burke*, 84 U.S. (17 Wall). 453 (1873)). Similarly, in *Leitch Manufacturing v. Barber Co.*, 302 U.S. 458 (1938), the patent holder sold bituminous emulsion to road builders who used it in accordance with the patented method to apply a film on the surface of roadways that prevented evaporation during curing, which enhanced the concrete's strength. This Court stated that "any road builder can buy emulsion from [the patent holder] for that purpose, and whenever such a sale is made, the law implies authority to practice the invention." *Id.* at 461. The Federal Circuit's new rule that the sale of a device cannot exhaust method claims does not comport with the analysis in this Court's prior decisions.

B. The Federal Circuit's Decision Creates a Rigid Rule Precluding Exhaustion of Method Claims That Lacks Sound Reasoning And Should Be Overruled.

i. The Federal Circuit Has Used The Wrong Test For Exhaustion.

Although the Federal Circuit's decision in this case states a rigid rule that the sale of a device cannot exhaust method claims, the court did not provide any explanation to support this view. Instead, the Federal Circuit merely cited to its prior decisions in *Bandag* and *Glass Equipment*. *LG Elecs.*, 453 F.3d at 1370. In both of those decisions, however, the Federal Circuit eschewed the substantial non-infringing use analysis that this Court applied in *Univis Lens*. In its place, the court undertook a narrower and more rigid analysis into whether the asserted claims actually "read on" the article sold – an analysis that even the lens blanks in *Univis Lens* would have failed because they did not contain all of the elements of Univis's patents on finished lenses and methods for making finished lenses. The Federal Circuit thus created a new, infringement test for exhaustion: a patent was not exhausted unless the patent would have directly "read on" the article sold. *See Bandag*, 750 F.2d at 924 ("The doctrine that the first sale by a patentee of an article embodying his invention exhausts his patent rights in that article, is inapplicable here, because the claims of the Carver patent are directed to a 'method of retreading' and *cannot read on* the

equipment Bolser used in its cold process recapping.") (emphasis added).

Under the Federal Circuit's test, the sale of a device can never exhaust a method claim because a method claim cannot "read on" a device standing alone (at least not until the device is used to perform the claimed method). Neither of the Federal Circuit's prior decisions provided any reason for applying this new infringement test for exhaustion. In both prior decisions, however, the court did find, as part of a separate implied license analysis, that the accused infringer had not provided sufficient evidence that the products at issue lacked any substantial uses other than to practice the patented methods.

In *Bandag*, the patentee's method claims covered a process for retreading tires. The court noted that the patent's claims "consist exclusively of recitations of method steps." *Bandag*, 750 F.2d at 922. Bandag authorized its franchisees to purchase rubber, materials, and equipment for tire retreading from Bandag and to perform the patented retreading method. *Id.* at 906. Bolser purchased from one of Bandag's franchisees certain tire retreading equipment that Bandag had manufactured and Bolser used that equipment to perform the tire retreading method. *Id.* Bandag sued Bolser for patent infringement alleging that Bolser was using the equipment it purchased to practice the patented retreading method. *Id.*

The Federal Circuit first recognized that although apparatus and method claims are distinct, some inventions can be defined by either type of claim:

> It is commonplace that the claims defining some inventions can by

> competent draftsmanship be directed to either a method or an apparatus. *See In re Johnston*, 502 F.2d 765, 772, 183 USPQ 172, 179 (CCPA 1974) (Rich, J., dissenting). The inventor of such an invention has the option as to the form the claims in his patent will assume. There is nothing improper in this state of affairs, however, and the exercise of that option is to be respected in interpreting such claims as do ultimately issue from prosecution.

Id. at 922. The Federal Circuit nevertheless ruled that first sale doctrine was inapplicable because "the [asserted] patent is not a patent on equipment for performing the method disclosed, even if its claims could have been so drafted." *Id.* The Court ruled that the claims of the asserted patent were directed to a method and hence "cannot read on the equipment [the purchaser] used" to perform the claimed method. *Id.* at 924.

Although the Federal Circuit cited this Court's decision in *Univis Lens* as authority for the doctrine of patent exhaustion, the court improperly determined that the doctrine is applicable only where the asserted claims read directly on the article sold. *Id.* But as reflected in Part II.A above, the *Univis Lens* decision reflects that whether the claims read on the article sold has never been the exclusive test for exhaustion. Instead, the court must consider whether there is any substantial use for the article other than to practice the asserted claims. Moreover, as the discussion in Part I above makes clear, allowing a patentee to avoid exhaustion by employing

the mere drafting choice to describe the invention using both method and apparatus claims exalts form over substance. The Federal Circuit's holding merely encourages multiplicity in patent claims and would eviscerate the exhaustion doctrine in any art where a competent draftsperson could describe the invention using either claim type.

In *Glass Equipment*, the patentee, Glass Equipment Development, Inc. (GED) held an apparatus patent that claimed "spacer frames" used to make thermally insulating glass windows. 174 F.3d at 1339-40. One element of the claimed spacer frame was a "corner key," which connected the spacer frame segments. *Id.* GED also held a separate method patent for making spacer frames with a "linear extruding machine" that assembled spacer frames using, in part, corner keys. *Id.*

GED licensed Allmetal, Inc. to manufacture spacer frame components, including corner keys. *Id.* at 1339. Simonton, a window manufacturer, bought corner keys from Allmetal and linear extruding machines from the accused infringer, Besten, and used them to make spacer frames. *Id.* at 1340. GED sued Simonton for directly infringing the method claims and sued Besten for contributorily infringing. *Id.* Simonton settled, admitting infringement of the method patent. *Id.* Besten asserted that Simonton had an implied license to practice the method claims due to its purchase of corner keys from Allmetal – an authorized seller. *Id.* In a footnote, the Federal Circuit determined, that the first sale doctrine was inapplicable to these facts:

> Here, where the articles sold were corner keys, which are not themselves

> patented (they are merely embodiments of an unpatented element of the '195 patent claims), and the license issue concerns GED's right to exclude concerning the *method* patent, not the *apparatus* patent, the first sale doctrine is inapplicable to the analysis of the facts. *See Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903, 924, 223 USPQ 982, 997 (Fed.Cir.1984) (holding first sale doctrine inapplicable where equipment was sold and license/infringement issue concerned patent claiming method of using equipment).

Id. at 1341 n.1. Thus, rather than apply this Court's analysis in *Univis Lens* to determine whether the articles sold had any substantial use other than to practice the claimed invention, the court focused on the fact that the articles were "not themselves patented" under the asserted claims. The Federal Circuit simply repeated the error in its analysis in the *Bandag* decision by not following the precedent set by this Court in *Univis Lens*. *Cf. Indep. Ink, Inc. v. Ill. Tool Works, Inc.*, 396 F.3d 1342, 1351 (Fed. Cir. 2005), *vacated* 547 U.S. 28 (2006) ("It is the duty of a court of appeals to follow the precedents of the Supreme Court until the Court itself chooses to expressly overrule them.").

ii. This Court Should Hold That There Is No Rigid Rule Precluding The Exhaustion of Method Claims And, In Appropriate Circumstances, Method Claims May Be Exhausted By The Sale Of A Device.

In both *Bandag* and *Glass Equipment*, the Federal Circuit failed to undertake the proper analysis under the exhaustion doctrine. But the Federal Circuit's incorrect analysis in those cases had little practical consequence because both decisions found, as part of an implied license analysis, that the facts were insufficient to establish that the articles sold lacked a substantial use other than to practice the claimed method. *Bandag*, 750 F.2d at 924-25; *Glass Equipment*, 174 F.3d at 1342-43.

Unfortunately, the Federal Circuit's error in failing to perform the proper analysis of the method claims at issue in these early decisions has now percolated into a broad statement that the exhaustion of method claims can never follow from the authorized sale of a device. As a result, some courts have further understood the rule to be that method claims can never be exhausted. *See, e.g., Lucent Tech. v. Gateway, Inc.*, 470 F. Supp. 2d 1163, 1169 n. 2 (S.D. Cal. 2007) (citing *LG Electronics* for the premise that "[t]he first sale doctrine is inapplicable where an accused device infringes methods claims.").

This rule is inconsistent with this Court's analysis in *Univis Lens* and *Ethyl Gasoline* and is inconsistent with the reasoning in several decisions issued by

prior Federal Circuit panels. *See, e.g., Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094, 1108 (Fed. Cir. 2001) ("The defense of repair is applicable to process claims, as well as to apparatus claims, when the patented process was used in the United States and the patent right has been exhausted for the articles produced thereby."); *Hewlett-Packard Co. v. Repeat-O-Type Stencil Mfg. Corp. Inc.*, 123 F.3d 1445, 1455 (Fed. Cir. 1997) ("When a patentee sells a device without condition, it parts with the right to enforce any patent that the parties might reasonably have contemplated would interfere with the use of the purchased device."), *cert. denied*, 523 U.S. 1022 (1998); *Met-Coil Systems Corp. v. Korners Unltd., Inc.*, 803 F.2d 684, 687 (Fed. Cir. 1986) ("A patent owner's unrestricted sales of a machine useful only in performing the claimed process and producing the claimed product 'plainly indicate that the grant of a license should be inferred.'"); *cf. Newell Cos., Inc. v. Kenney Mfg. Co.*, 864 F.2d 757, 765 (Fed. Cir. 1988) ("This court has adopted the rule that prior decisions of a panel of the court are binding precedent on subsequent panels unless and until overturned in banc."), *cert. denied*, 493 U.S. 814 (1989).

Unlike in *Bandag* and *Glass Equipment*, the practical consequences of the Federal Circuit's improper application of the exhaustion doctrine are now very real. If, as the district court found, there are no substantial uses for the articles sold other than to practice LGE's patents, then downstream customers will be left with products, bought and paid for, that they cannot use for any reasonable purpose. Moreover, the Federal Circuit's rigid rule will have eviscerated the exhaustion doctrine – patentees will simply draft method claims to avoid it. This Court

should clarify that the sale of a device can indeed exhaust method claims, in appropriate circumstances, where the device sold has no substantial use other than to practice the claimed method.

CONCLUSION

Both this Court's precedent and the practical realities of the patent application process dictate that, for exhaustion purposes, there is no difference between method and apparatus claims. Clearly, "[a]n apparatus claim covers what a device is, while a method claim covers what a device does." FABER § 7:2, 7-4 (citing *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464 (Fed. Cir. 1990)). But patent law and policy reflect that, once sold, the value of the device is in its use. Under the law as found by this Court, a first sale exhausts the patent monopoly and prohibits the patent holder from controlling downstream uses of the device sold. This law is no less applicable where a device has no reasonable use other than to practice a claimed method than it is when the device has no reasonable use other than to be combined with additional elements to create a claimed system.

To the extent that the Federal Circuit's decision creates an *ipse dixit* rule that "the sale of a device does not exhaust a patentee's rights in its method claims" it should be overruled. As this Court has previously recognized "[r]igid preventative rules that deny fact finders recourse to common sense ... are neither necessary under our case law nor consistent with it." *KSR Int'l. Co. v. Teleflex Inc.*, 127 S.Ct. 1727, 1742-43, 167 L.Ed.2d 705 (2007).

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